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PUBLIC AFFAIRS

January 24, 1995

DEPARTMENT OF DEFENSE MEMORANDUM

SUBJECT: 1994 Summer Study "China In the Near Term"

The information contained within this study does not reflect the official policy or position of the Department of Defense or the U.S. Government.

Please note that the Defense Department was not tasked with estimating foreign policy options dealing with China and a study group consensus on the future of China was not sought.

Dennis Klauer
Deputy Director, Defense
Information

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PREFACE

The following provides a summary of a Summer Study report conducted for the Under Secretary of Defense (Policy). The Summer Study, directed by Andrew W. Marshall and James G. Roche with the working group chaired by Ronald A. Morse, met from 1 through 10 August 1994 at the Naval War College, Newport, Rhode Island. This was the eighth in a series of summer studies undertaken to review fundamental issues and questions of importance to the defense planning process.

The working group's objective was to consider ways in which China might evolve over the near term and to examine the impact of this evolution on the region. The group was asked to devote particular attention to the potential for negative developments, especially those that might directly affect U.S. interests. They were also asked to identify indicators of movement toward these alternative futures.

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STUDY GROUP PARTICIPANTS

The study group was diverse and represented generational and occupational differences. Considerable time was devoted to discussing the details of China's current leadership and social issues. The objective was to allow a full explanation of differing interpretations about China's near-term future and then to weight those evaluations in terms of plausible outcomes. China is the major uncertainty in Asia's future.

STUDY OBJECTIVES

This study examines scenarios for China following the death of Deng Xiaoping. It is an analysis of a China that has a fragmented political apparatus, has not made the transition to a market economy, and faces a serious succession crisis. The study had three primary objectives: to examine China as it is today with the issues influencing it in the near term; to estimate probabilities of scenario outcomes once Deng dies; and to document the significance of these various scenarios.

The study was conducted on the assumption that we wanted to capture the "Middle Kingdom"--China--view of the world. We were not tasked with estimating foreign policy options dealing with China.

China, as we all know, is a large and complex nation. Arriving at a study group consensus on the future of China was not sought. After careful deliberation, the group made the following observations:

- following Deng's death a collective leadership phase would prevail;**
- no paramount leader would emerge during the transition phase;**
- the post-Deng leadership collective would most likely not change Deng's emphasis on economic reform and limited political liberalization;**
- there was a 50-50 chance that the transition would lead to a Soviet-style break-up of China; and**
- that whatever scenario dominates in the future, all Chinas would be different from the present and all Chinas may challenge US interests.**

ASSUMPTIONS

Why China Deserves Serious Consideration

China, simply because of its size and location, presents a significant challenge to nations with a stake in Asia. It is now more of a consideration because of its uncertain future. Its vulnerabilities are: population and geographical size; a historical tendency to decentralized governance; the lack of a "civil society"--intermediary institutions for political action, labor organization and interest articulation; a narrow Communist party form of rule; and the costs of state enterprises and a large and costly public sector.

These conditions argue against the emergence of one strong leader in the year or two following Deng's death. Loyalties to Deng are currently based on decades of experience with revolutionary leaders. Deng combined administrative control and personal charisma to implement his policies and ensure that leaders could not use their own power base to challenge him. Leaders coming after Deng have influence in the bureaucratic, military, or economic areas, but they lack the broad support necessary to rule. At a minimum, only some combination of group leadership can hold the system together.

The study group did not exclude the possibility that one person might strive for ultimate power, but we believed that this effort was doomed to failure and would become a pathway to collapse. After considerable debate about individual Chinese leaders, we concluded that, rather than second guess who might emerge, it was better to understand the dynamics of leadership behavior more generally.

Two final points: (1) we assumed that the People's Liberation Army (PLA) preference in a leadership transition was for collective leadership because the PLA had more flexibility for exercising influence. Under rapid reform or disintegration, the PLA is likely to do less well; and (2) that Chinese leaders all have a strong nationalistic pride.

EXTERNAL EVENTS THAT COULD ALTER CHINA'S OPTIONS

The task of the study group was to assess the "internal" dynamics of China and evaluate the options that the Chinese leadership would face. While we were not tasked to evaluate external factors that could alter Chinese options, we did prepare a list of external events that need to be considered.

Most of the external issues listed here are touched on elsewhere in the report. Nevertheless, by way of explanation consider the first example--the possible implications of a "US strategic withdrawal from Asia." US withdrawal could trigger the following events: a Sino-Japanese arms race; Japan's decision to develop a nuclear weapons capability; Taiwan's decision to declare complete independence from China; an arms race in Southeast Asia; a breakdown in regional multilateral economic and security agreements; an increase in the PLA's role in politics; and an increase in Chinese nationalism.

Possible Alliances Against China

Japan recognizes the potential threat of China. Japan's policies and its strategies for regional alliances excluding China are an important research area. Will Korea, Vietnam, and Australia, for example, look to Japan in an alliance to counter Chinese hegemony?

The next several pages highlight a series of issues that either deserve further research or suggest trends in China that in one way or another will shape the outcomes of the scenarios examined. These issues--"Factors Making China's Future Uncertain"--indicate some of the background considerations against which the scenarios presented were developed.

CHINA'S PATCHWORK OF WEALTH

Creating Multiple Economic Chinas

China's growth rate, its ability to attract foreign investment and capital, and its ambitious economic plans should not be underestimated. Nevertheless, the impact has been regionally disproportionate and goes counter to the socialist notion of economic equality and social responsibility. With a 100 million person strong floating migratory workforce (many say 200 million by the year 2000), subnational economic disparities, and uneven income distribution, China faces significant internal problems.

As the income distribution map here shows:

-- no coastal province, except Hebei and Hainan, is below the national average.

-- no interior province, except Heilongjiang and Jilin in the northeast and Xinjiang in the northwest, is above the national average.

-- at the extreme, Beijing and Shanghai are more than twice the national average.

An Issue for the Future

Economic links to overseas Chinese raises the question of "greater China" and the long-term allegiance of tens of millions of overseas Chinese to mainland China.

POPULATION AND OIL CONSUMPTION

China's Growing Energy Crisis

Energy supply and its cost is the most pressing single constraint of an array of resource vulnerabilities China will face in the near term. As China's per capita energy demands grow with economic development, the cost, supply, and environmental consequences of energy demand will be a more and more important consideration. High growth, a rapidly expanding heavy manufacturing sector, and rapidly growing transportation requirements will necessitate increased energy imports. Under current conditions, by the year 2000, 40% of China's oil will come from the Middle East at an annual additional cost of \$6 billion. Domestic coal and oil supplies will not be adequate to meet domestic demand by 2000.

MAJOR CHINESE OIL/GAS FIELDS

China's oil reserves are all in areas that put it in potential conflict with other powers. In the northeast, issues with the Russian Far East and Korea are important. The Tarim Basin is in a volatile area with Kazakhstan and the coastal areas and the Spratly Islands are also areas of contention.

To meet its energy requirements, China will be forced to develop a blue water navy and bargain with Middle East oil producing nations like Iran.

ALTERNATIVE ESTIMATES OF CHINA'S GROSS DOMESTIC PRODUCT (1991)

Lack of Data and Statistical Controls

The misreporting of economic statistics by local governments and enterprises in China has become a major problem in assessing China's economic policies. The problem is highlighted in the chart on China's GDP showing widely varying estimates by international organizations and economists. The lack of information control hampers industrial planning.

Common to all socialist countries, China has a growing fiscal deficit (9.5 billion yen in 1992--3.8% of GNP). This is caused by heavy subsidies to cover losses incurred by state enterprises, inappropriate government pricing policies, expenditures for state officials, and the redemption of national and foreign bonds.

COMPARATIVE WESTERN ANALYSES OF CHINESE DEFENSE BUDGET

Another Statistical Uncertainty

Chinese defense spending has been significant since 1987, but the open source data on the intent and use of defense resources is deficient. Opinions vary about how to measure Chinese spending (see next page). This is another area for further research.

POST-DENG CHINESE LEADERSHIP MINDSET

Post-Deng Xiaoping China

Deng Xiaoping's power has been absolute and strong. It has been a personalized style of leadership remarkably successful in attaining China's goals of economic reform, modest political change, and international respect.

But Deng has been less successful with the details: the process of political succession is uncertain, fiscal, banking, and other economic reforms are incomplete, and the balance of center-provincial controls is still unresolved.

The study group felt that for these and other reasons, China is up for grabs once Deng passes away. There is no apparent internal balance of political forces and Deng's death will create a political vacuum for both conservatives and reformers to move in. Even so, all players will want to avoid chaos, avoid being seen as weak; and all will want to protect their personal and family/associates' benefits. Factors shaping the post-Deng transition will be:

- the stake the leaders have in continuing the current situation;**
- the desire to avoid bloody leadership struggles like the Cultural Revolution; and**
- the degree to which a faceless "collective" leadership serves a common interest.**

Ideology

The leadership appears bound by a shared sense that the most important goal is economic, political, and military power for China. The debate is over the methods to achieve that goal. They want to avoid a divided China--the Warlord Era, the excesses of the Cultural Revolution, and the break-up of the Soviet Union are negative lessons of how weakness evolves out of chaos. All current leaders take the "state" as the unit of political analysis--not the region or a global presence. Economic growth might not be a zero-sum game, but they see military and political power in zero-sum terms.

KEY ISSUES IN THE NEAR TERM

Time Lines

The issues on the opposite page will require decisions by the leadership during the near term. The succession struggle in North Korea is already a factor. The reversion of Hong Kong in 1997 and how that is managed politically will send a signal about China's long-term intentions. The issue of Taiwan-China relations is always central to America's relations with China.

The Succession Issue

The historical record is clear: leadership transitions in China are likely to be violent and drawn out. The emergence of Mao Zedong (1947-1954) and the comeback of Deng Xiaoping (1978-1983) were periods of uncertainty. Leaders after Deng will most likely be technocrats with a stake in economic reform. They will have few differences on foreign policy issues and they will also have fairly narrow policy interests. They realize that the Chinese people are less tolerant of political or military ruthlessness and that China is too complex to manage in earlier more centralized ways.

Communist Systems in Transition

The lessons of the USSR, Hungary, and the post-Soviet states suggest that maintaining tight Communist party control over society while relaxing management of the economy creates regime instability.

THE GEOGRAPHY OF CRISES POINTS

Areas to Watch

An aggressive, resource hungry China alongside a resource rich, but fragmenting Russia leads to border problems. For example, in Xinjiang, Muslim separatists on both sides of the Sino-Russian border have created problems. Ethnic Chinese account for only 38% of the 16 million, mostly Turkic-speaking Muslims in the area. Kazakhstan, with 17.2 million people and an extensive privatization plan of its own, has 15 million barrels of oil and 86 trillion cubic feet of natural gas. In 1993, it accounted for 5.8% of the oil and 21% of the coal extracted in the former Soviet Union. The area is rich in gold and other metals as well.

Major project failures in China could also create regime instability. There have already been problems at the nuclear power plant near Hong Kong. The Three Gorges Project has vast social and environmental implications. Heilongjiang has large state enterprises that must be made efficient and border disputes create a potential for confrontation. Tibet could seek independence.

Issue for the Future

Moscow sees China as a regional rival with a large population. Where interests meet, in Central Asia, China and Russia are in competition.

SCENARIOS FOR CHINA'S FUTURE

Post-Deng Leadership Scenarios

The group believed that there was a 50/50 chance that China would disintegrate under a post-Deng diffused leadership and internal conflict. Power in general will gravitate away from the center.

The linear future, perhaps closest to the present situation, is only 30% likely. The liberal reform scenario, the one that Western powers hope for, is the least likely according to the study group estimates.

The study group focused on three (A, D, E) sub-scenarios under the disintegration case.

Alternative Considerations

The group considered the "muddle through" case in which pieces of all three scenarios might mix in their own way. But for the sake of analysis and to force policy clarity, we felt more could be learned from specific scenario differentiation. Also, the scenarios as presented here are more useful in anticipating the international (foreign policy and military) security threats resulting from differing paths for China.

SCENARIO I: LINEAR FUTURE

The Linear Future scenario evolves because:

- the post-Deng collective leadership holds together.**
- the PLA and the security apparatus support the collective leadership.**
- key leaders do not go all out for a predominant leadership because they value regime survival.**
- economic growth and social stability are considered the primary policy objective.**

SCENARIO I: LINEAR FUTURE

Military Doctrine

American high-tech military performance in operation DESERT STORM has been taken as the new model for Chinese modernization. Chinese military officials believe the present gap in their capabilities is temporary and the long-term goal is to be a global military peer of the United States.

SCENARIO I: LINEAR FUTURE

Does China Fit the Asian Model of Economic Development

-- Yes, in the sense that as in Japan, South Korea and Taiwan, economics has dominated politics and the center has dominated the periphery. One lesson of Asian late-comer development that Chinese leaders have learned is that you can have the market working for development and still maintain an authoritarian political system.

-- No, because China has not managed the issues of inflation, income equity, and social unrest as well as the other Asian nations. While the Chinese leadership seeks to emulate the Singapore/Japan/Korea pattern of modernization, China has not demonstrated the same degree of institutional capacity.

Hybrid Nation: China's Vulnerabilities

In addition to transition leadership problems, China has new elites (business, student, professional) that operate outside the state apparatus and the Communist Party has less control over workers and peasants because of urbanization, migration, and new channels of communications.

SCENARIO I: LINEAR FUTURE

Social Trends:

- **Increased economic inequality and corruption**
- **Crackdowns on economic protests**

Economic Trends:

- **Mixed planned/market economy**
- **No rapid privatization of state enterprises**
- **Major project difficulties (Three Gorges)**
- **Foreign Direct Investment continues, but slows**
- **Some state enterprises closed**

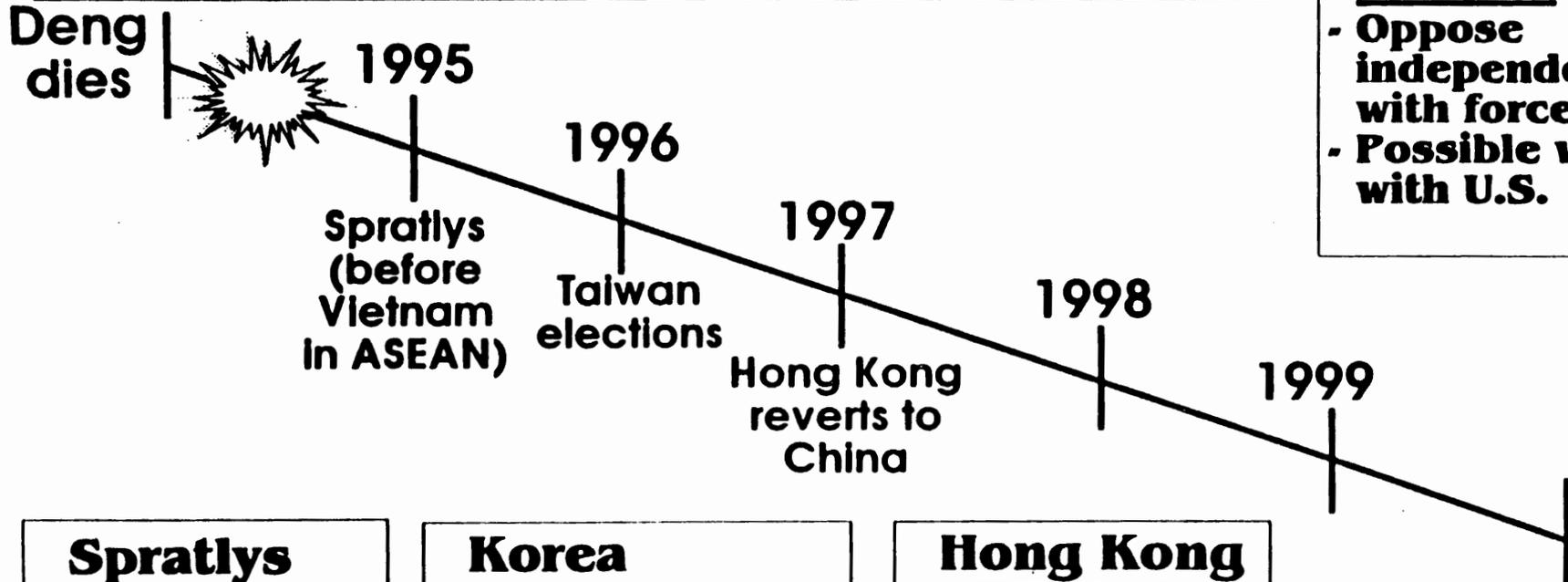
LINEAR FUTURE

Bottom Line:

- Improved power projection capability
- More assertive as power increases
- Continued avoidance of formal regional security agreements

Taiwan

- Oppose independence with force
- Possible war with U.S.



Spratlys

- Clash with Vietnam
- Seizure of islands in S. China Sea

Korea

- Avoid sanctions
- Oppose preemptive military action
- Support U.S. recognition of DPRK

Hong Kong

- Tough on democrats
- Possible crackdown

SCENARIO II: LIBERAL REFORM

Leadership Mindset:

domestic:

- political reform essential for legitimacy
- political reform essential for economic development and innovation

foreign policy:

- economics dominates foreign policy
- more faith in multilateralism
- downplaying of military force
- non-provocative international environment

Military:

doctrine: high-tech local wars

capabilities:

- greater willingness to accept arms control constraints on capabilities
- nuclear doctrine
 - minimum deterrence
- rising civilian control over security policy
- military budget transparency

SCENARIO II: LIBERAL REFORM

Social Trends:

- **Significant social dislocation and stress, but localized**
- **new social security framework cushions uncertainties**

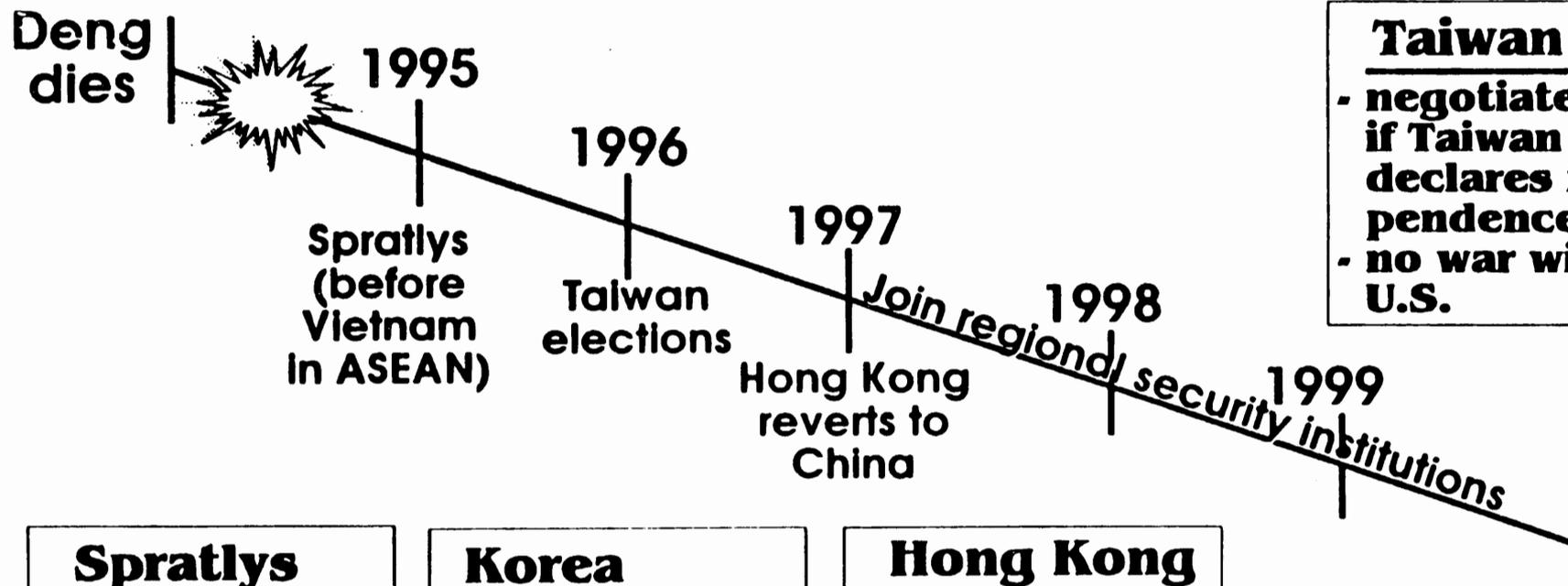
Economic Trends:

- **sustained high growth**
- **new economic strategy introduced**
- **state enterprise reform**
- **inflation cools down**

LIBERAL REFORM

Bottom Line:

- less threatening, more cooperative on regional security
- can fight; will try to avoid fighting
- improved power projection



Spratlys

- Jointly developed
- downplay sovereignty claims

Korea

- not oppose sanctions
- more active support for denuclearization

Hong Kong

- accept democratic outcomes in Hong Kong

(Phase I) - SCENARIO III: DISINTEGRATION

Major Implications of Disintegration Scenarios

- **Likely emergence of aggressive nationalist strongman**
- **Likely major constitutional changes in government**

Leadership Mindset:

domestic:

- **Mutual distrust - succession gridlock**
- **Zero sum views of power/resources**
- **Strong regional identities**
- **Domestic fights override foreign policy**

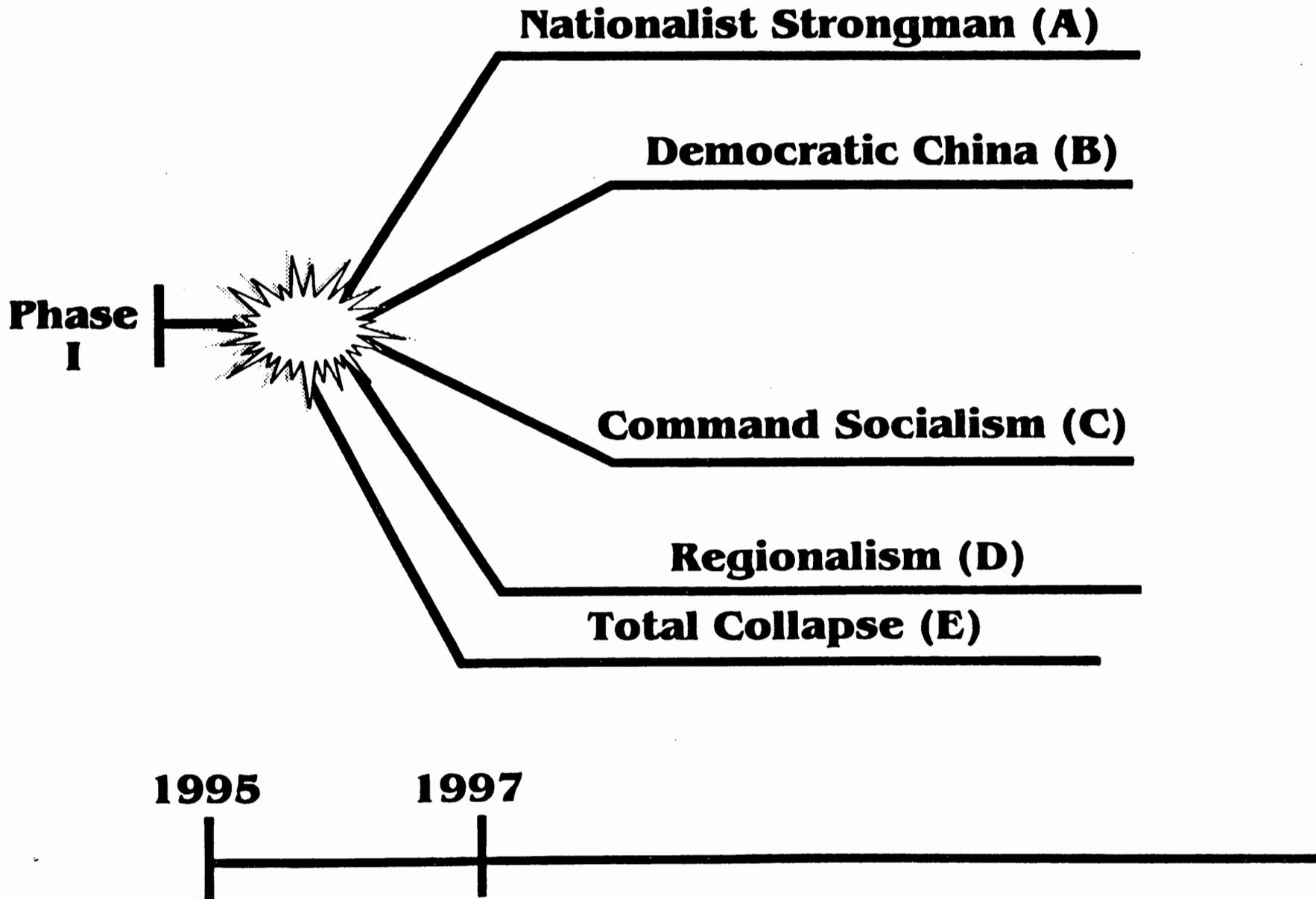
Trigger for internal break-up

- **Alienation of provinces**
- **Splintering military control**

Indicators

- **Formation of provincial coalitions**
- **Provinces withhold taxes**
- **End of military region command shuffles**

DISINTEGRATION - SUB-SCENARIOS



SUB-SCENARIO III: NATIONALIST STRONGMAN (A)

Leadership Mindset:

- **Domestic**
 - **Non-Communist leader emerges with mass support, acquiescence of PLA and security apparatus**
 - **No tolerance for elite dissent**
 - **Politics zero sum**
- **Foreign Policy**
 - **Han Chauvinism**
 - **Greater China nationalism**
 - **Irredentist claims**
 - **Anti-American Line (including Japan)**

SUB-SCENARIO III: NATIONALIST STRONGMAN

Military:

**doctrine: Protracted local wars
"beyond the gates"**

capabilities:

- **Large increase in military expenditures**
- **Blue water navy**
- **Amphibious forces**
- **Air-mobile rapid reaction forces**
- **Attempt to develop nuclear warfighting capability**
- **Increase in ground forces**

Social Trends:

- **Suppress dissent**
- **Patriotic campaigns**

Economic Trends:

- **Economic mercantilist**
- **Economic growth serves military power**

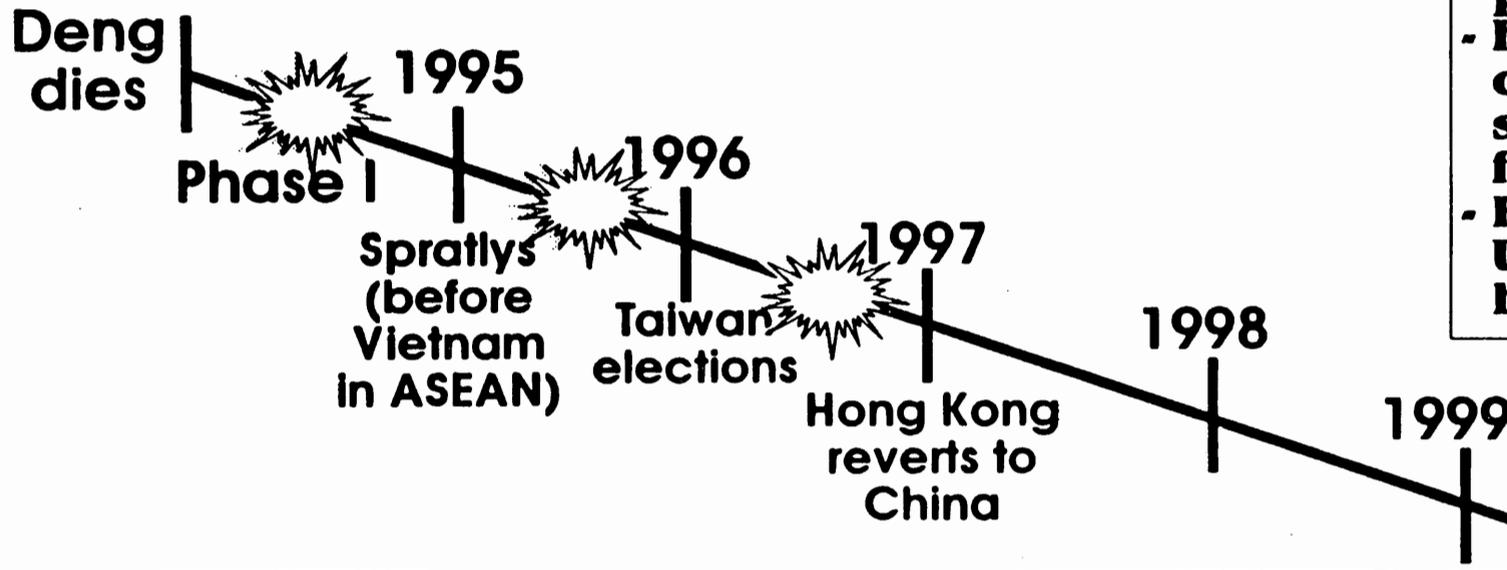
NATIONALIST STRONGMAN

Bottom Line:

- **Aggressive, non-cooperative China**

Taiwan

- High likelihood of Taiwan declaring independence
- High likelihood of China responding with force
- Pressure on U.S. to stand by Taiwan



Spratlys

- Attack Vietnam on land

Korea

- Assist DPRK if crisis not resolved
- Oppose U.S presence on Korean Peninsula

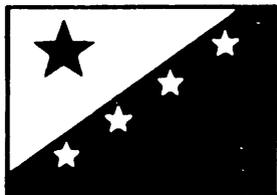
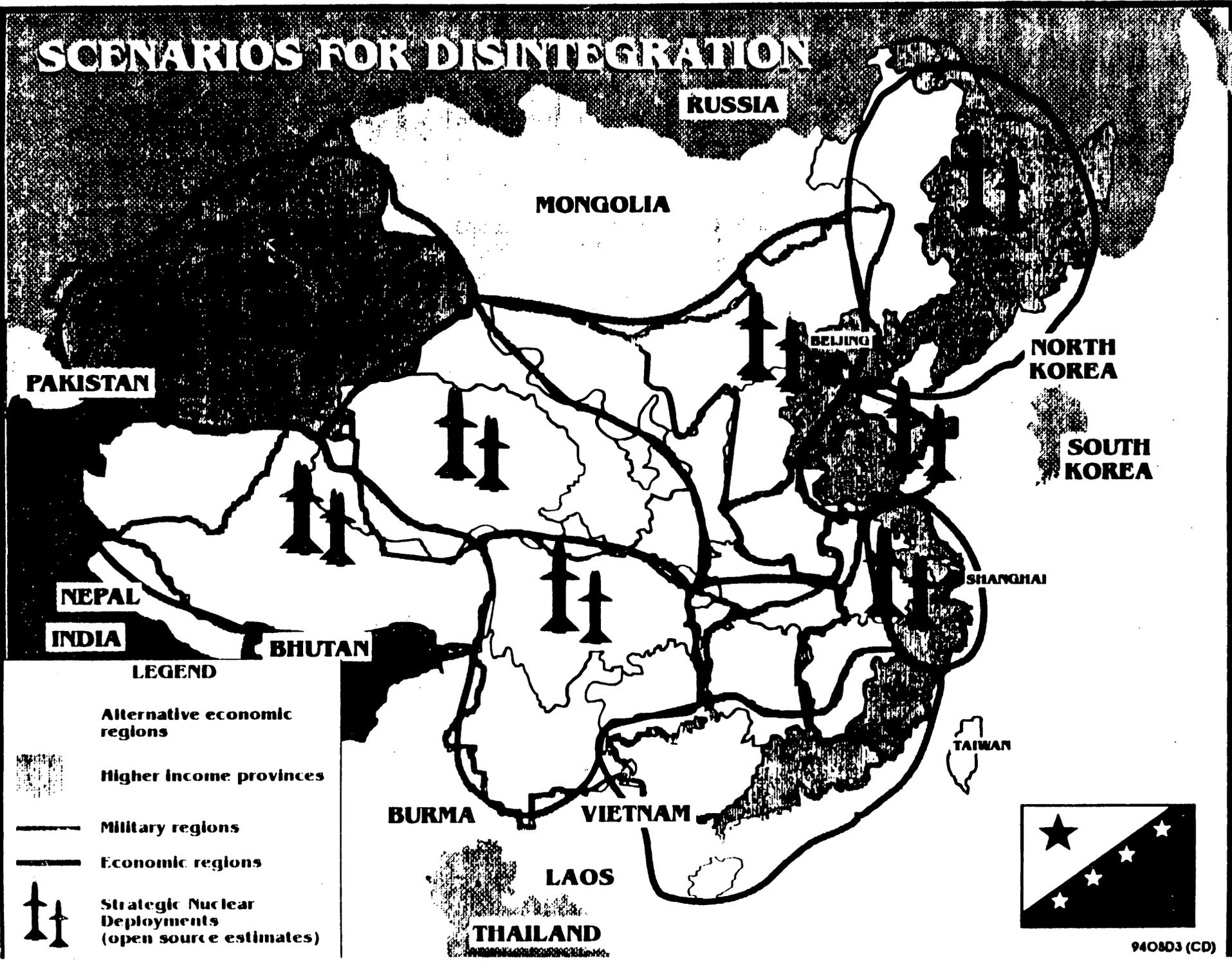
Hong Kong

- Hardline, repression

Other Issues

- Finlandized Mongolia
- Conflict with Kazakhstan
- Adjust borders with Russia
- Active support of Pakistan

SCENARIOS FOR DISINTEGRATION



SUB-SCENARIO : REGIONALISM (D)

Leadership Mindset:

domestic:

- **Local identities/allegiances**
- **Regional autonomy preferred to civil war**

foreign policy:

- **Regional ties to foreign areas**
- **Conflict avoidance**

Military:

**doctrine: Border defense, control
regional breakaway**

capabilities:

- **Central budgets decline**
- **Poor force coordination**
- **Weak power projection capability**

SUB-SCENARIO: REGIONALISM (D)

Social Trends:

- **Sense of social chaos**
- **Gangs and secret societies expand influence**

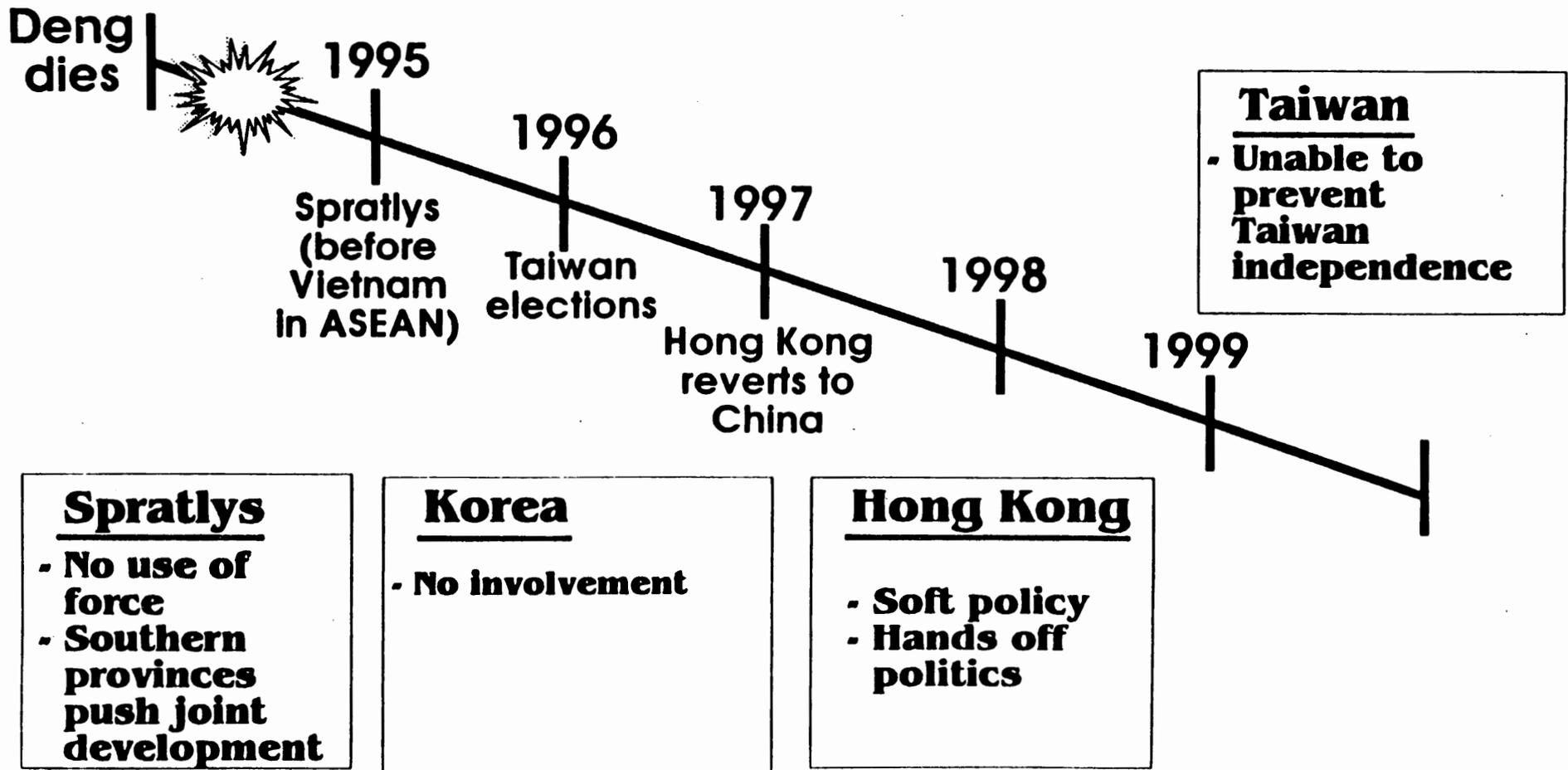
Economic Trends:

- **Deepening fiscal crisis in central government**
- **Regional currencies appear - high inflation**
- **Regional economic trade ties strengthen**

REGIONALISM

Bottom Line:

- **Fragmented foreign policy**
- **Provincial vetoes over foreign economic and security policy**



SUB-SCENARIO : TOTAL COLLAPSE (E)

Leadership Mindset:

domestic:

- **Personal attacks, fear of reprisals**
- **Attempts to capture military loyalty**

foreign policy:

- **Paralysis**

Military:

**doctrine: Local territorial control, protection from
local rivals, repel foreign invaders**

capabilities:

- **Control of nuclear weapons uncertain**
- **Local weapons purchasing**

SUB-SCENARIO III: TOTAL COLLAPSE (E)

Social Trends:

- **Sense of chaos and unpredictability surfaces**
- **Refugees and migrant worker riots**

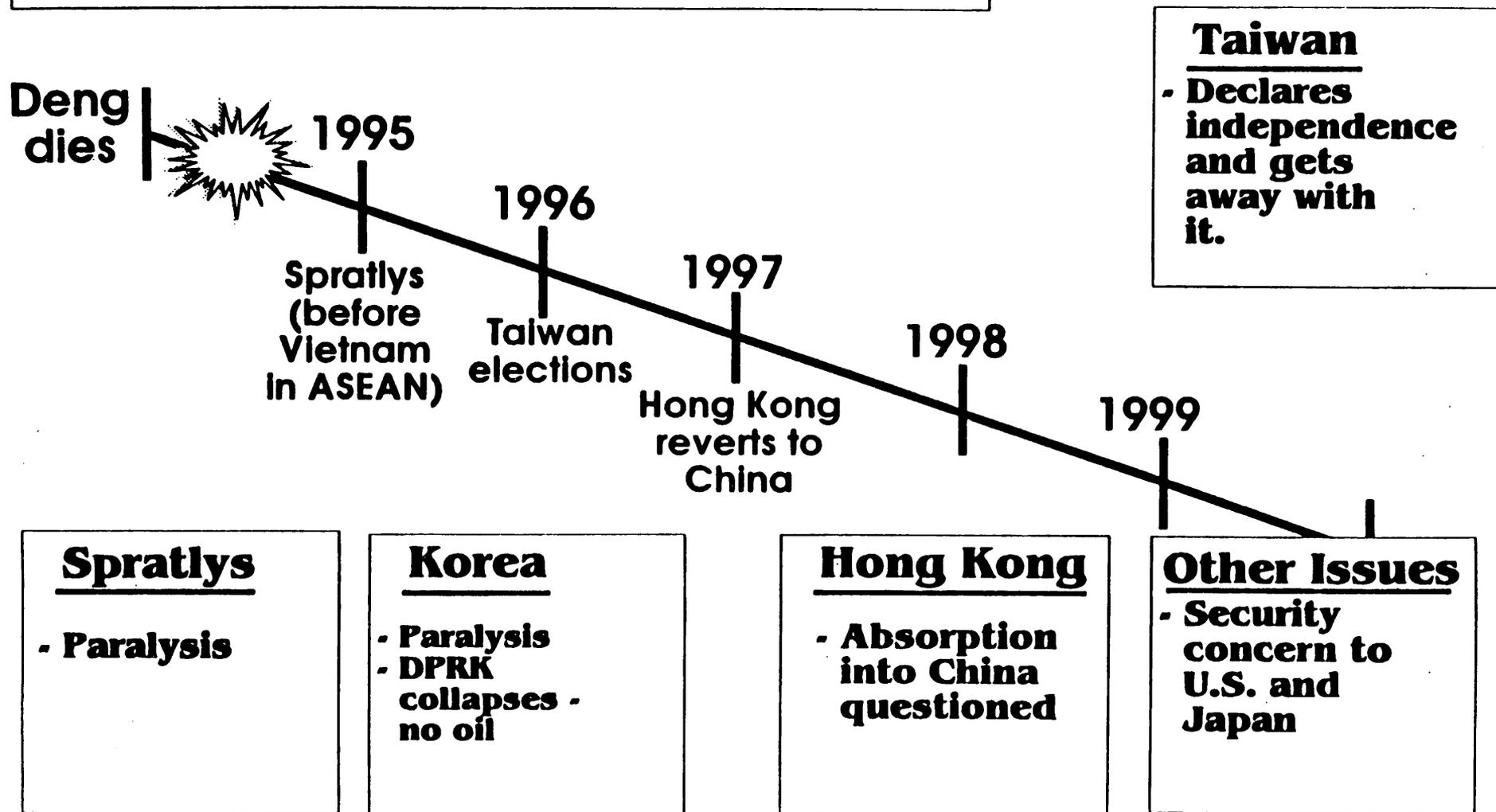
Economic Trends:

- **Economic instability**
- **Corruption and mismanagement of Three Gorges Project**
- **Drop in foreign investment**
- **Peasant riots in inland provinces**

TOTAL COLLAPSE

Bottom Line:

- Refugee flows
- Weapons proliferation



OBSERVATIONS

Under all scenarios, we will be dealing with a China never dealt with before.

Each of the three scenarios presents a different challenge;

- the linear scenario presents an economically and militarily stronger, more assertive China less willing to compromise on issues of interest to the U.S.**
- the liberal scenario presents an economically and militarily more powerful China that is less threatening. China has a growing stake in regional and global peace and stability.**
- the disintegration scenario can lead to a range of outcomes, the most probable paths ranging from liberal democracy to hyper-nationalism and collapse**

Toward the end of the first week, the two study group chairmen, with perhaps one or two helpers, will start to prepare briefings which will later be checked by their groups. In the meantime a short study will be formed which will run Saturday morning, all day Monday, and Tuesday morning of the second week. This keeps the people in the two study groups occupied when they are not listening to and reviewing their chairman's presentations. No briefing of the short study will be required, although a record of discussions and a short report of findings will be prepared by the short study co-chairmen. Membership in the short study will be a mix of those serving on the two study groups, with perhaps the addition of a few others.

Two special studies, with restricted membership, will also take place. One special study will update the Russian scenarios developed last year, and the second will focus on the process of building scenarios of future security environments.

We are confident that you will find the summer study interesting and rewarding. I look forward to meeting with you.

Sincerely,



A. W. Marshall

SHORT STUDY GROUPS

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III. Alternative World Scenarios

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